REPORT BY THE

# AUDITOR GENERAL

OF CALIFORNIA

# FEDERAL WORK INCENTIVE PROGRAM FOR CALIFORNIA WELFARE RECIPIENTS HAS HAD LIMITED SUCCESS

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MARCH 1977

Office of the Auditor General

REPORT OF THE

OFFICE OF THE AUDITOR GENERAL

TO THE

JOINT LEGISLATIVE AUDIT COMMITTEE

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# Joint Legislative Audit Committee

OFFICE OF THE AUDITOR GENERAL

# California Legislature

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March 29, 1977

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of
the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's report relating to the federal Work Incentive Program (WIN) administered by the Employment Development Department of the State of California.

If WIN were an exclusive State of California program, rather than ninety percent federally supported, termination would be advisable due to self-defeating federal limitations. Other federal employment programs are capable of a more efficient cost-benefit ratio. The California Congressional delegation will be encouraged to support the recommendations of the Director of Employment Development for changes in the federal regulations.

By copy of this letter, the Department is requested to advise the Joint Legislative Audit Committee within sixty days of the status of implementation of the recommendations of the Auditor General that are within the statutory authority of the Department.

The auditors are Thomas W. Hayes, Fred Kalhammer, and Richard C. Tracy.

Respectfully submitted,

MIKE CULLEN
Chairman


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## SUMMARY

The federal Work Incentive Program (WIN) for California welfare recipients has had limited success. Federal regulations leave little room for state administrative discretion in making changes to improve program effectiveness. Of the 387,633 cumulative WIN registrants in the 15 months ending September 30, 1976, only 46,133 entered employment. Up to 70 percent of these people found jobs largely through their own efforts.

We identified several factors which have limited program effectiveness:

- The operations of WIN and Comprehensive Employment and Training Act (CETA) Programs are not effectively coordinated. During the 15-month period ending September 30, 1976, over $100 million in CETA funds, part of which could have been used to train WIN registrants in California, remained unutilized (p. 37).

- Federal regulations place emphasis on "creaming" the most job ready WIN registrants for program services. But job ready registrants benefit least from the program (pp. 7, 10).

- Welfare regulations provide a disincentive for many unemployed fathers to go to work because their families derive more from welfare than from a low paying job (p. 15).

- The required registration of all eligible AFDC applicants with WIN is costly and time consuming. Twenty-five percent of WIN staff time is devoted to registration (p. 23).

- Welfare fathers with little or no work experience, regardless of their need for training, cannot participate in the WIN Program (p. 31).

On pages 13, 20, 30, 34, 42, and 48 we recommend action which should improve the effectiveness of the WIN Program.

# INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee, we have reviewed California's Work Incentive Program (WIN). The review was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code.

## Legislative History

The Work Incentive (WIN) Program, authorized by Title IV of the Social Security Amendments of 1967 (42 U.S.C. 630, et seq.), was designed to provide certain recipients of the Aid to Families With Dependent Children (AFDC) Program with incentives, opportunities and necessary services to enable them to (1) be employed in the regular economy, (2) receive training for work in the regular economy, and (3) participate in special work projects, so as to move them from welfare dependency to economic self-sufficiency through meaningful jobs.

To improve the WIN Program, referred to as WIN I, major legislation was enacted--Public Law 92-223, approved December 28, 1971—to change the program's operations and emphasis. These amendments, effective July 1, 1972, under the program referred to as WIN II, provided in part for:

- Increased federal funding, providing for 90 percent federal and 10 percent state funds.

- Registration with the local manpower agency for services, training, and employment of all individuals as a condition of eligibility for AFDC, except those specifically exempted.

- Establishment of a separate administrative unit (SAU) in the state welfare agency to provide supportive services to WIN participants.

- Emphasis on employment-based training by requiring expenditures for on-the-job training (OJT) and public service employment (PSE) of not less than one-third of new program funds expended by the Department of Labor.

The 1971 amendments require that the manpower agency give priority to the following WIN registrants: (1) unemployed fathers, (2) mothers who volunteer for participation, (3) other mothers and pregnant women under nineteen years of age, (4) dependent children and relatives age 16 and over, who are not in school or engaged in work or manpower training, and (5) all others.

## Program Administration

WIN is jointly administered at the national level by the U. S. Departments of Labor and Health, Education and Welfare. In California, the Employment Development Department (EDD) administers the employment and training services portion of the program, while the Department of Benefit Payments and the welfare departments of the 30 counties in which the WIN Program operates supply support services. Eligibility requirements and program priorities are mandated by the Federal Government. Federal regulations leave little room for state administrative discretion.

Expenditures for the California WIN Program during fiscal years 1974-75, 1975-76, and 1976-77 are shown in the following table:

CALIFORNIA WIN PROGRAM FUNDING 1/

| 1974-75 | 1975-76 | 1976-77 2/ |
|---|---|---|
| $37,002,486 | $39,559,387 | $54,102,451 |

---

1/ Includes employment and training services furnished by EDD and support services (child care, family planning, etc.) furnished by the 30 WIN county welfare departments' separate administrative units and the administrative support of the Department of Benefit Payments.

2/ Includes both historical and estimated amounts.

Scope of Review

We concentrated on evaluating the effectiveness of California's WIN Program and determining how that effectiveness could be improved. In accordance with a legislative request, we concentrated on EDD's administration of the employment services aspect of the WIN Program. We reviewed appropriate legislation and applicable regulations, policies and procedures of EDD and the U. S. Department of Labor. We interviewed manpower and welfare officials at the federal, state, and local levels and examined appropriate records.

## AUDIT RESULTS

### WIN PROGRAM COULD BE MORE EFFECTIVE

EDD and the U. S. Department of Labor have had limited success in assisting WIN participants attain economic self-support. Of the 387,633 cumulative WIN registrants in the 15 months ending September 30, 1976, only 46,133 entered employment. Furthermore, about 70 percent of those who entered employment found jobs largely through their own efforts, rather than as a consequence of the program. Although the WIN Program has helped the relatively few registrants given services achieve some earnings gains, federal emphasis on placement of job ready registrants has limited program effectiveness.

### Goals of the WIN Program

The objective of the WIN Program is to place AFDC recipients in permanent employment and enable them to become economically self-sufficient, which concomitantly reduces the number on welfare rolls and the cost of welfare benefits. To this end, the U. S. Department of Labor's WIN office each year sets national placement goals for the program. These goals are divided into administrative regions, states, and ultimately in California, EDD field offices. In achieving their goals, EDD/WIN field office staff have been directed by the WIN Program handbook to emphasize placement services to the most employable WIN registrants.

Program Costs Not Recovered

In January 1977, EDD submitted its Eighth Annual Report to the Legislature on WIN. An EDD News Release (Appendix A) summarized reported WIN Program achievements as follows:

> California placed 46,133 WIN participants . . . This performance surpassed the Federally set goal of 37,000 job placements by 9,133 or 24 percent over 100 percent goal accomplishment. . . . saving at least $37 million in welfare funds.

Although the California WIN Program surpassed its federal placement goals and the performance of other populous states, not all of these 46,133 placements were the result of WIN services. Less than eight percent of WIN registrants were given training. Further, WIN trainees accounted for only three in ten persons who entered employment during this period. This means that seven out of ten WIN registrants found jobs largely through their own efforts.

According to EDD and Department of Benefit Payments records, total WIN Program costs and benefits for the above mentioned 15-month period were:

| | | |
|---|---|---|
| EDD/WIN Employment and Training Services | $42,100,726 | |
| DBP-County/SAU Support Services | 10,861,588 | |
| Total WIN Program Cost for 15-Month Period | | $52,962,314 |
| Less Reported Welfare Savings | | 37,209,588 |
| Excess of Expenditures over Reported Savings | | ($15,752,726) |

## WIN's Impact Lessened by Emphasizing Services to the Job Ready

WIN's emphasis on the job ready deprives WIN services from those EDD clients that could most benefit from the program. Since the job ready are easiest to place, however, WIN staff finds that emphasizing services to them makes it easier to meet federal placement goals. By emphasizing services to the job ready, EDD complies with federal regulations but limits WIN's effectiveness because the job ready are the least likely to benefit from the program.

## Department of Labor Study Questions WIN Emphasis

A recently issued national study of the WIN Program commissioned by the U. S. Department of Labor questions the use of gross placement statistics to measure WIN's impact. The study, which took over two years to complete, and cost $2.5 million, asserts that the job ready do not benefit as much from WIN services as do other clients with less work history (Appendix B).

We interviewed the principal authors of the report and reviewed the methodology they employed. We also spoke with U. S. Department of Labor officials concerned with both the study and the national WIN Program. Our conclusion is that the study's findings are fairly representative of the California WIN Program. Two of the principal authors stated that the results of the study were generally applicable to California (Appendix C).

The study found an increasing program focus on direct placement, as reflected in reduced availability of nonplacement services. There was a greater tendency to serve the most employable registrants before those with less job experience. This tendency increased under WIN "redesign" regulations effective in March 1976.

The WIN policy of concentrating efforts on the job ready has resulted in no net reduction in welfare dependency, on average, while the average net gain in annual employment as a result of WIN participation was only two to three weeks for males, and three to four weeks for females. These results reflect the experiences of two very different kinds of WIN participants: those with little or no employment history who achieved substantial first-year net earnings gains, and those with recent work experience who achieved far less. Of the few who found employment, the less job ready benefited more from every level of WIN service, both placement and intensive training, than did job ready registrants. Further, as noted above, AFDC recipients with good work experience were just as likely to find work and leave welfare on their own without WIN.

Although reported welfare savings achieved by the WIN Program were less than overall program costs, the benefits achieved by recipients of WIN services in terms of increases in their net earnings and income, exceeded the costs of the WIN services provided to those individuals. More importantly, net earnings gains were greatest for those participants with little or no employment history.

### WIN's Placement Emphasis Duplicates an On-going EDD Manpower Program

Among the numerous programs managed by EDD, one of the largest is the Employment Services Program. Employment Services is a labor exchange which seeks to match the needs of employers with the skills found in a pool of job ready work applicants. In the 30 WIN counties, the Employment Services Program functions side-by-side with WIN in most EDD field offices. While anyone may register for work with Employment Services, WIN deals only with federally eligible, nonexempt AFDC recipients. Only about eight percent of these welfare recipients are provided training, subsidized employment, and supportive services under WIN. The Employment Services Program is not funded to provide like services to its work applicants. In this sense, WIN's placement emphasis on the job ready has created a parallel labor exhange for AFDC recipients. However, since about seven out of ten WIN registrants who enter employment find their own jobs, such duplication of effort to benefit those least in need of WIN services seems redundant. Moreover, since many registrants who could profit from WIN are denied access to WIN services because of insufficient resources, the advisability of expending scarce resources to operate separate labor exchanges is even more doubtful.

Federal WIN Regulations
Limit EDD's Discretion

Federal regulations direct state WIN sponsors to focus program services on those individuals with the greatest "employment potential." This emphasis, together with certain line item budgetary restrictions and severe limits on training time, has led EDD to voice complaints about the WIN Program's "inflexibilities."

> These limitations prevent states from establishing the type of WIN Program that best meets their needs . . . a state should be free to expend more resources on job placement if that is the need or more resources on training . . . if it is the need. Currently, the philosophy of the national WIN office is to cream the most employable welfare recipients and to ignore those persons designated as unassigned registrants.

CONCLUSION

The WIN Program should emphasize serving those who can most benefit from WIN services. EDD/WIN staff preoccupation with goal achievement favors the job ready at the expense of those in geater need of WIN services. This has, in turn, led to the creation of a parallel job exchange to benefit job ready registrants. WIN's overall impact is consequently diminished since the job ready benefit less from WIN services than those with limited work experience.

A change in program emphasis would require federal action.

## RECOMMENDATION

We recommend that the Legislature urge the United States Congress to adopt legislation which would minimize duplication in placement services for the job ready, and allow WIN services to be concentrated on those registrants who could most benefit from the program.

## BENEFIT

Concentrating WIN services on those registrants who can benefit most from the program should improve WIN's effectiveness in helping welfare recipients achieve economic self-sufficiency.

## WELFARE REGULATIONS DISCOURAGE AFDC FATHERS FROM WORKING AND ENCOURAGE THEM TO LEAVE HOME

The Social Security Act provides that children may, at state option, be eligible for public assistance if they suffer deprivation due to the unemployment of their father (AFDC-U). However, if the unemployed father gets a job and works steadily 100 hours per month or more, his family will lose its AFDC-U eligibility. This loss in eligibility may result in a significant decrease in gross income and other welfare benefits to the family. The 100-hour limitation therefore provides a disincentive for many unemployed fathers to go to work because their families receive more from welfare than from a low-paying job. Also, many men who choose to work leave home so their families may continue to receive welfare payments under another AFDC program.

### AFDC Regulations for Unemployed Fathers

WIN regulations regarding the 100 hour issue state:

> Notwithstanding the earned income disregard provision, in a family receiving support under the unemployed father provision of the Social Security Act where the father obtains steady, regular employment of 100 hours or more per month, <u>the family is not eligible for AFDC assistance</u>. (Emphasis added)

These regulations further state:

> Unemployed fathers are not eligible for any AFDC benefits if they have regular employment of 100 hours or more per month. Therefore, they shall be required to accept employment only where the monthly wage level, less mandatory payroll deductions and a reasonable allowance for necessary work-related expenses, shall equal or exceed the registrant's monthly AFDC cash assistance payment. The wage shall in no case be less than that required by any applicable minimum wage laws.

In effect, welfare fathers with marginal skills who can qualify for only low-paying jobs are actually encouraged by this restriction to remain on welfare rather than accept a full-time job at minimum wages. While AFDC regulations provide incentives for unemployed fathers to work up to 100 hours per month, female heads of household have incentives to work beyond 100 hours per month. The fact that women benefit more from WIN than men is borne out by the conclusions and findings of the WIN II Impact Study mentioned earlier in this report:

> The net income gain to WIN-II participants averaged $561 per year for females, $290 for males. Analysis of a subgroup of all WIN-II participants, on whom complete income data was available, indicates that welfare regulations permit female participants to retain most of their earnings gains, without off-setting grant reductions. For males the implicit "welfare tax" is over 40 percent.

Table I shows how the WIN income disregard formula works for a person receiving $240 in monthly welfare payments who takes a job paying $360 per month. However, this formula may be applied only in cases where the head of household is a woman with no adult male in residence with the family (AFDC-FG), or in the case of a male head of household who resides with his family but works less than 100 hours per month.

## TABLE I[1/]

## ILLUSTRATION OF "30 AND A THIRD" INCENTIVE

| | | |
|---|---|---|
| Total (gross) Pay From New Job | $360 | |
| Subtract "30" | -30 | |
| | $330 | |
| Now subtract a "Third" of the balance | $330 | |
| | -110 | |
| | $220 | |
| Subtract for expenses like lunch and clothes needed for work | $220 | |
| | -28 | |
| | $192 | |
| Subtract for transportation to and from work, and for taxes (if any) | $192 | WIN does not subtract all of pay from welfare check |
| | -42 | |
| | $150 | WIN only subtracts what's left after "30 AND A THIRD" |
| Old welfare check | $240 | |
| Subtract what's left after "30 and a Third | -150 | |
| New welfare check | $ 90 | |

STILL GETS $90 A MONTH FROM WELFARE AND ALL OF THE PAY FROM NEW JOB

### SUMMARY

| NEW JOB | | VS. | | WELFARE |
|---|---|---|---|---|
| Salary | $360 | | $ 0 | Salary |
| New Welfare Grant | 90 | | 240 | Old Welfare Grant |
| New Total | $450 | | $240 | Old Total |

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1/ Adapted from WIN Program Brochure, What You Should Know About WIN.

The following example illustrates how current welfare regulations served as a disincentive to work for an individual who has received AFDC and WIN benefits from time to time over the past several years:

-- Mr. X is married with two young children. He is 26 years old. Several years ago Mr. X received 600 hours WIN training as a welder in another county. During 1976 he worked for several months at that occupation earning $4 per hour before being laid off. Mr. X told us welding was too seasonal an occupation and he has lately turned to part-time auto repairs instead. He works two days a week and makes $2.50 an hour; his file shows him to be engaged in "casual labor." He and his family receive $402 per month in public assistance. Recently, the owner of the auto repair shop where Mr. X is employed asked him to come in three days a week and held out the possibility of full-time employment in the near future. Mr. X's wife told him to consult their county social worker before accepting. Mr. X's caseworker informed him that if he began working three days a week his entire family would come off welfare. She also warned him that failure to accept the job could make him subject to WIN program sanctions and possibly the loss of his share of the welfare grant. Confused and concerned, Mr. X had come in to see his WIN counselor at which time he told us he could not consider working full-time at $2.50 an hour because welfare benefits were worth more to him and his family.

Thus, Mr. X's present combined monthly income is:

| | | |
|---|---|---|
| Welfare grant | $402 | |
| Earnings | 173 | |
| Total combined income ............... | | $575 |

On the other hand, if he works three days a week, his family would lose their welfare grant and he would only earn about $260 per month. Even if he worked full time, at $2.50 an hour, his monthly earnings would only be $433; $142 less than if his family remains on welfare, and he continues to work only two days a week.

The example demonstrates that Mr. X's chances for remaining on welfare are greater so long as he cannot work full-time and remain in WIN. The example does not take into account Mr. X's family foodstamp and Medi-Cal benefits which only serve to make welfare more attractive. If he could benefit fully from the "30 and a third" income disregard formula, on the other hand, his chances of eventually getting off welfare through experience and advancement on a full-time job would be greatly enhanced.

EDD has requested that the Federal Government waive the 100-hour limitation for a demonstration project in California, but to date no action has been taken.

Family Life Also Affected

Title IV, Part C, Section 430 of the Social Security Act states in part:

> It is expected that the individuals participating in the program [WIN] . . . will acquire a sense of dignity, self-worth, and confidence which will flow from being recognized as a wage-earning member of society and that the example of a working adult in these families will have beneficial effects on the children in such families.

A University of California study[1/] of change and turnover in the welfare population of a northern California county alludes to the effect the work incentive limit may have on families' staying together:

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1/ Wiseman, Michael, Change and Turnover in a Welfare Population, Working Paper No. 70, Institute of Business and Economic Research, University of California, Berkeley, August 1976.

> Over six percent of fathers . . . will desert their families within three months. Some return; many do not. There is some (largely anecdotal) evidence that a share of these separations take place to avoid the hours of employment rule for AFDC-U eligibility. . . . Because it involves fraud, not much is known about this phenomenon. Nonetheless, the numbers are clear: an exceptional amount of family dissolution occurs in AFDC-U. This is paradoxical given the fact that AFDC-U was originally established to avoid the family dissolution incentives thought to be created by denial of assistance to two-parent families.

## CONCLUSION

The 100-hour limit on the WIN "30 and a third" income disregard makes staying on welfare more attractive than taking a job for many men qualified for only low-paying jobs. Researchers have also detected a strong possibility that the effect of this limit contributes to family dissolution. In our view, the income disregard limit for men counters the program's stated objectives of encouraging families with unemployed fathers to achieve economic independence.

Modification of the 100-hour limitation would require federal action.

## RECOMMENDATION

We recommend that the California Legislature urge the Secretary of Labor and the Secretary of Health, Education, and Welfare to amend federal welfare regulations to permit welfare fathers to benefit more fully from the WIN "30 and a third" income disregard work incentive.

## BENEFITS

Permitting welfare fathers to benefit more fully from the WIN income disregard work incentive will provide additional incentive for welfare fathers to obtain employment and stay with their families.

## MANDATORY WIN REGISTRATION CONSUMES SCARCE RESOURCES

Registering all eligible AFDC applicants with the WIN Program is costly and time consuming. Twenty-five percent of WIN staff time is devoted to registration. Much of this same time could be used to provide additional services to motivated welfare recipients.

As shown in Figure I, during fiscal year 1975-76 WIN had funds to provide training to only about eight percent of all program registrants.

### Who Shall be Registered

Federal regulations governing the WIN Program issued by the U. S. Department of Labor under Title IV of the Social Security Act state:

> All applicants and recipients . . . shall register for manpower services, training, and employment as a condition of eligibility for AFDC . . .

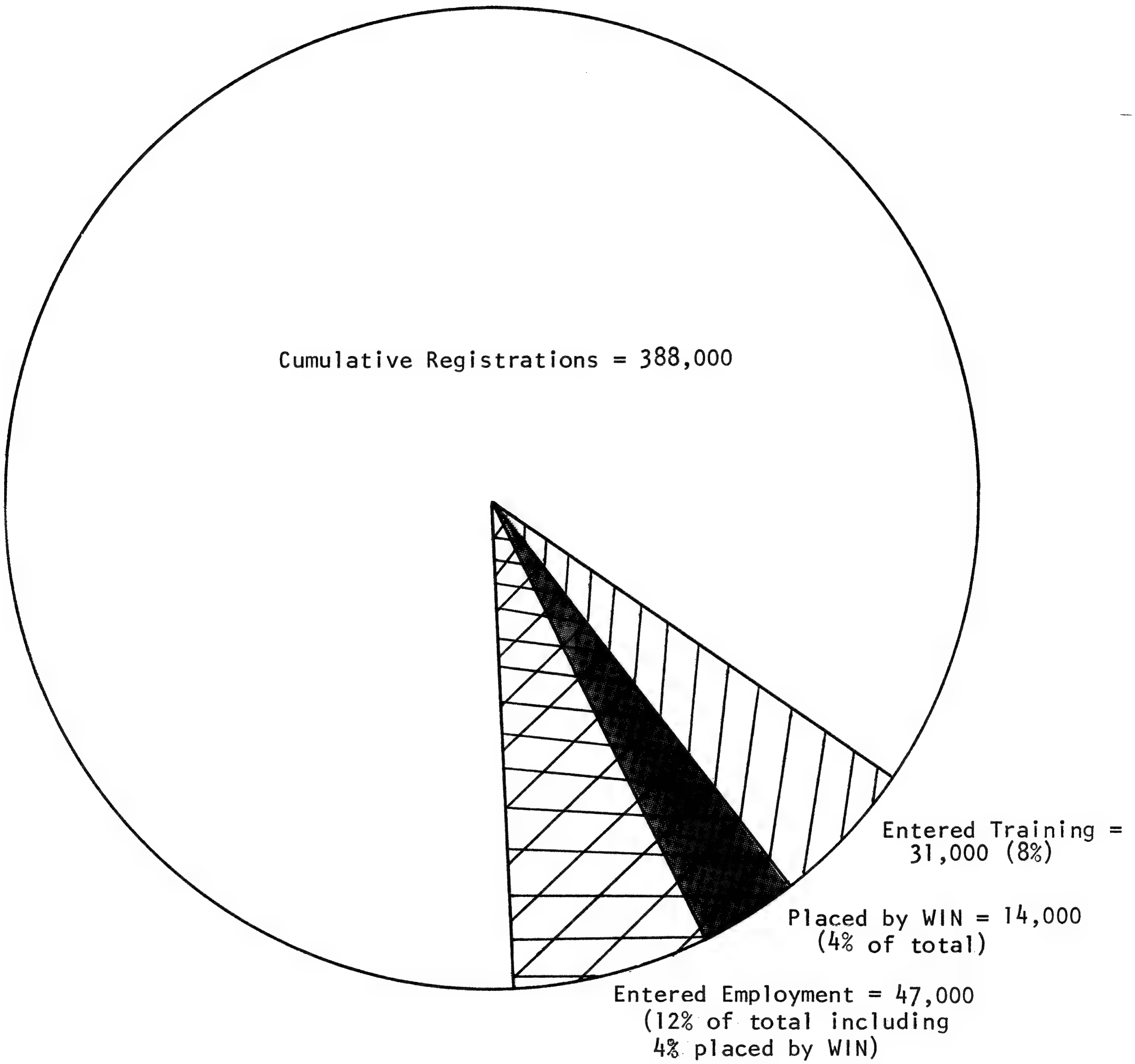
However, certain classes of recipients are exempt from this requirement:

- Persons under age 16 or attending school full-time.
- Persons too ill, too old, or otherwise incapacitated.
- A mother or other relative needed at home to care for a child under age six.

FIGURE I

A GRAPHIC DEPICTION OF THE CALIFORNIA WIN PROGRAM

July 1, 1975--September 30, 1976



- Persons needed at home to care for ill or incapacitated household members.

- Persons so remote from a WIN project that effective participation is precluded.

- Mothers in families where the father or other adult male relative in the home has registered.

Exempt AFDC recipients may register voluntarily with WIN. Figure II illustrates the WIN registration process.

As of September 30, 1976, about 250,000 Californians were registered with WIN. Of these:

- 93 percent were mandatory registrants and 7 percent volunteers.

- 12 percent of all registrants were working but still receiving aid.

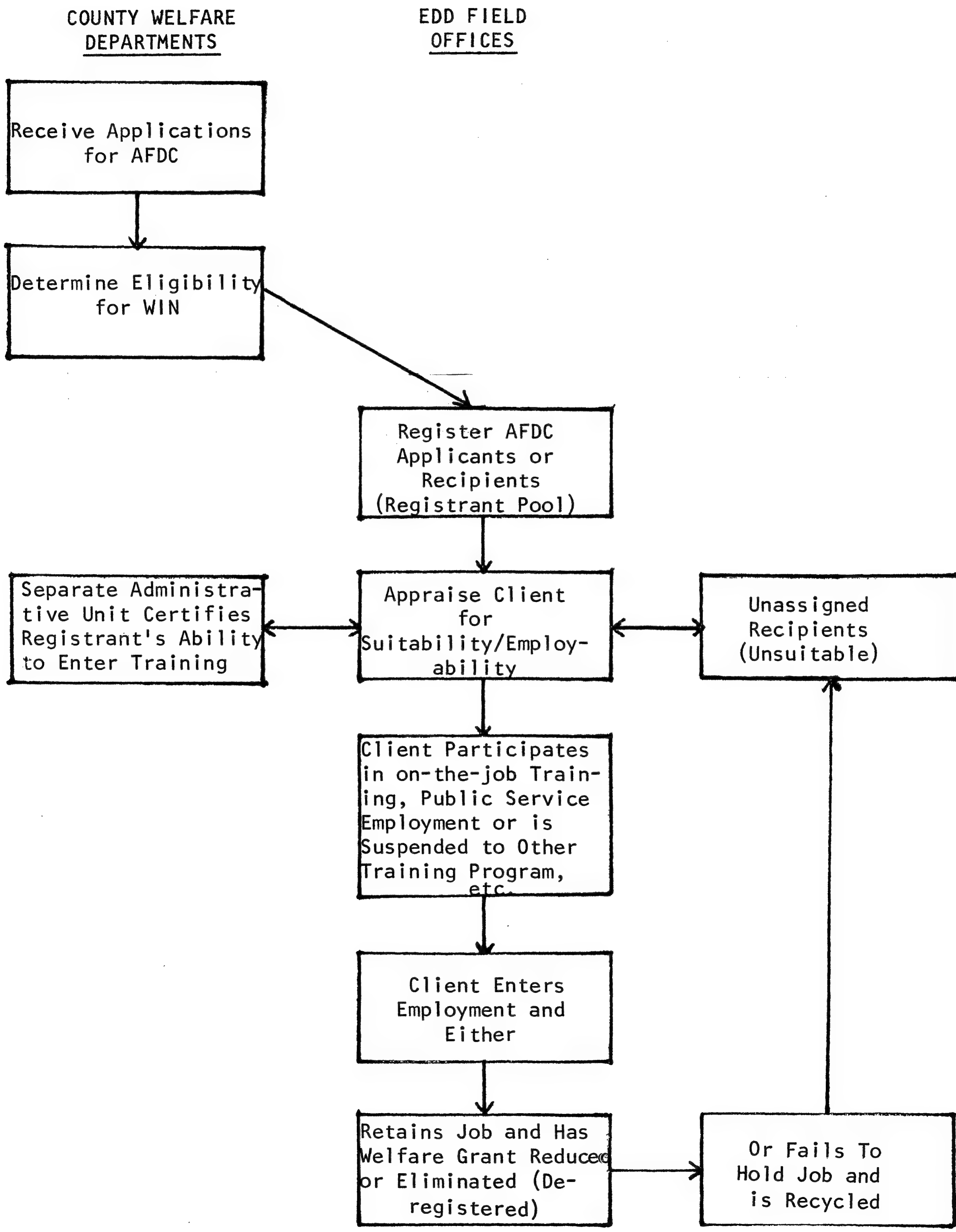
- 4 percent of all registrants were actively engaged in a WIN or other manpower training program component.

The remainder either had not yet had their welfare grant established or did not receive training and became "unclassified recipients."

This illustrates that relatively few of those who register with WIN actually participate in a WIN training component.

FIGURE II

WIN CLIENT FLOW



Reasons for Limited
Participation

This low participation rate results from (1) insufficient WIN Program resources to provide services to all registrants able to benefit from them, and (2) "an excess of Federally-required paperwork, particularly registration of persons unable to benefit from WIN services" (Appendix A). EDD's concern over WIN's high administrative burden was expressed in a January, 1977 Field Office Directive:

> Our concern was that 80 percent of our staff time was involved in processes and 20 percent in direct placement activities. . . . ideally this should be reversed . . . [if it were] we could dramatically increase the number of our clients entering employment and effect real welfare savings.

New Jersey's Experience
With Voluntary Registration

In April and May 1976 representatives of the United States General Accounting Office (GAO) testified on voluntary registration before the United States Congress. In describing New Jersey's voluntary registration experience, the GAO stated:

> On October 1, 1974, New Jersey ended mandatory Service registration of claimants. Instead, the State invited claimants to register with the Service if they wanted or needed help in finding a job.

In comparing the experience of the first six months under the new system with the same period during the previous year, in summary, the GAO noted:

- Total registrations decreased by over 50 percent while placements remained fairly constant (this took place despite a 1/3 drop in the listed number of job vacancies caused by increasing unemployment).

- Voluntary registrants were more likely to be placed than involuntary registrants.

- More effective placement services for both registrants and employers were made possible due to the diversion of 40 Service employees from mandatory registration activities (the New Jersey Service Director estimated that 2,400 fewer placements would have been made during the period under the old system).

The Deterrent Effect of WIN Registration

The argument for mandatory registration is based on the belief that the American public will not support the payment of public assistance to persons without a work requirement such as WIN. A work requirement is alleged to have a "deterrent effect" in that it would tend to dissuade would-be welfare applicants from capriciously seeking public assistance.

Although not enough research has been done into this area, what has been learned does not support the deterrent effect thesis. A strong attempt was made to deter persons from applying for welfare through Community Work Experience Program (CWEP) county demonstration projects under the California Welfare Reform Act of 1971. California's experience with CWEP (now defunct), while not conclusive proof to the contrary, showed that welfare applications increased more in counties which applied CWEP work requirements (more strenuous than WIN's) than in those counties which did not adopt CWEP.

A study funded by the U. S. Department of Labor performed by three mid-western universities disclosed that client motivation was the factor that most determined whether registrants received services and benefited from the WIN Program.

The Secretary of the Health and Welfare Agency requested on March 18, 1977 that the Federal Government waive WIN regulations regarding mandatory registration for a demonstration project in California.

Illegal Alien Registration: An Example of Pointless Paperwork

Although federal and state law both prohibit the employment of illegal aliens, a California Superior Court in 1975 held that an alien not under direct order of deportation by the U. S. Immigration and Naturalization Service (I&NS) could not be denied AFDC.

It is not known how many such aliens are registered with WIN. I&NS has estimated the number of illegal aliens in California to approximate 1.7 million of whom 1.1 million may be employed. In a 1976 survey of AFDC family characteristics, the Department of Benefit Payments reported that five percent of applicant families' status was questionable enough to warrant a request for I&NS verification of citizenship or right to work.

Because registration with WIN is a precondition to receipt of AFDC, EDD has determined that such aliens must be registered despite the fact they cannot be provided training or referred to a job.

CONCLUSION

Expending significant amounts of WIN monies to register all AFDC recipients is an ineffective use of program resources. Even if the entire WIN Program in California were made voluntary, it is doubtful, at present funding levels, that all volunteers could be adequately served.

Modification of the mandatory registration provision in the Social Security Act would require federal action.

RECOMMENDATION

We recommend that the Legislature urge the U. S. Secretaries of Labor and Health, Education, and Welfare to establish a voluntary WIN registration pilot demonstration project in the State of California.

BENEFIT

Elimination of the mandatory registration requirement will reduce registration costs and free more resources to train WIN registrants. This should improve program effectiveness.

## ELIGIBILITY REQUIREMENTS LIMIT WIN PROGRAM EFFECTIVENESS

Welfare fathers with little or no work experience, regardless of their need for training, cannot participate in the WIN Program. Hence, a clearly defined group, typified by younger-than-average male AFDC recipients, is being denied access to the program. This group is among those most able to benefit from WIN services.

About 2,800 Californians who live in the 30 WIN counties are ineligible for WIN because they have never held a job, or because they have not worked enough to fulfill minimum federal requirements.

### Federal Welfare Regulations Limit Access to WIN

The goal of the WIN Program is to place AFDC recipients in employment, thus enabling them to become economically self-sufficient and removing them from the welfare rolls. However, federal welfare regulations require a minimum of "labor market attachment" in order for a person to be referred to WIN. Thus, not all persons who could benefit are eligible for WIN.

County welfare departments in California are charged with determining an AFDC recipient's prior labor market attachment before referral to EDD. Federal welfare regulations on this point are clear as evidenced in the following statement taken from the WIN Program Field Office Manual:

> The IMU [Income Maintenance Unit of the County Welfare Department] will not refer the AFDC-U father [male head of household living at home whose family receives Aid to Families with Dependent Children] to WIN if he is exempt or if he is not federally eligible. AFDC-U fathers . . . who lack a prior attachment to the labor market are not federally eligible.

Since the Federal Government does not contribute to welfare payments made to federally ineligible persons, the cost of assistance to these families is shared equally between the State and counties. According to Department of Benefit Payments' statistics, about 2,800 fathers who live in the 30 counties where the WIN Program operates in California lack the required labor market attachment, and are therefore ineligible for WIN but are eligible for state and locally funded AFDC.

Younger Fathers Affected

While less than one-third of federally eligible fathers are 25 or younger, almost one-half the number of federally ineligible fathers are found in this age group. Therefore, one may reasonably expect to find a high incidence of previously unemployed young fathers in this category.

The results of the WIN impact study mentioned earlier in this report showed that these men would derive more from WIN participation than federally eligible men with recent employment history.

## An Inappropriate Referral Process

Since county welfare departments must classify persons without recent job experience ineligible for WIN, they are instead referred to EDD's Employment Services Program. As noted earlier in this report, Employment Services is a job exchange operated by EDD which emphasizes placement services to the job ready. This program is not funded to provide training or incentives to its registrants. Since persons without recent job experience are not likely to have a marketable skill, it is doubtful that Employment Services can place them.

Following are examples of individuals ineligible for WIN because they lack work experience; however, they appear to be the people who could benefit most from the type of training WIN can offer:

-- Mr. Y is 20 years old and lives with a woman one year his junior. They have a son but remain unmarried. Mr. Y completed only three years of high school and his job history includes less than three months' experience as a janitor in 1976. Thus, he did not qualify for WIN; instead he was referred to EDD's Employment Service. Having neither phone nor car, it is difficult for him to look for work. As of February 1977, he had not been referred to any jobs by EDD.

-- Mr. Z is 24 and has not worked since 1973. As a result, he was ineligible for WIN and was referred to the Employment Services of EDD. Mr. Z and the woman he lives with had two children while on welfare, receiving $349 per month. In June 1976, Mr. Z and the mother of his children were married. As a result, welfare regulations required that their grant be reduced by $56 because a federally ineligible married father who lives at home is ineligible for assistance, in most cases. Mr. Z has no phone and only the occasional use of his aunt's car. His file at the Employment Services Office discloses he completed three years of high school, held only summer jobs and was on parole during 1975. He had not been referred to any jobs as of February 1977.

The Employment Services Office at which the above men were registered for work had a total file of 15,516 job applicants at the end of 1976 of which 10,119 were active. Both the above men's records were found among the inactive job applicant files.

## CONCLUSION

Welfare fathers with little or no work experience are denied access to WIN because their lack of employment history makes them difficult to place, and because welfare regulations make them federally ineligible. Yet these men and their families are prime candidates to become long-term welfare recipients. Because they are among those who could most profit from WIN training services, their exclusion limits program effectiveness in reducing welfare dependency.

Modification of WIN eligibility requirements would require federal action.

## RECOMMENDATION

We recommend that the Legislature urge the United States Congress to delete labor market attachment criteria from WIN eligibility requirements.

## BENEFITS

Eliminating the labor market attachment criteria from WIN eligibility requirements will allow persons with little or no work experience to receive WIN services. Since this group is among those most able to profit from WIN services, program effectiveness should improve.

## INADEQUATE COORDINATION BETWEEN WIN AND CETA

The operations of the WIN and Comprehensive Employment and Training Act (CETA) Programs in California are not effectively coordinated. During the 15-month period ending September 30, 1976, there were over $100 million in unspent CETA funds, part of which could have been used to train WIN registrants in California. Consequently, many WIN registrants who could have benefited from CETA training and employment were deprived of these services.

### The CETA Program Distinguished from WIN

Although both CETA and WIN are intended to provide training and employment opportunities to disadvantaged and unemployed persons, certain differences distinguish the two. Most importantly, CETA is a revenue sharing program, 100 percent federally funded, with limited state government control. Funds flow directly from the U. S. Department of Labor to CETA "prime sponsors" (usually large cities and counties) who, in turn, distribute them among various sub-contractors who provide training services. This differs from WIN which is 10 percent state funded and wholly state operated. WIN's clientele is also limited to federally eligible AFDC recipients, while CETA's clientele includes almost all disadvantaged and unemployed persons, including WIN registrants. CETA is a more flexible program with less federal controls and outside policy direction, while WIN is relatively more rigid and structured in its organization and operation.

WIN/CETA Coordination Encouraged

Regulations for both WIN and CETA clearly intend, but do not mandate, coordination between the two programs. For example, federal CETA regulations state that:

> any prime sponsor which intends to provide services under the Act to recipients of Aid to Families with Dependent Children (AFDC) should coordinate such services with the local sponsor of the Work Incentive Program, . . .

EDD recognizes that effective program coordination between WIN and CETA could provide additional resources to train WIN registrants:

> Effective coordination with CETA Prime Sponsors can maximize the manpower services available for WIN recipients.

Effective coordination between the WIN and CETA Programs could eliminate costly duplication of effort, maximize the utilization of manpower resources and significantly reduce governmental costs. Cooperative WIN/CETA relationships could increase the employment and training resources available to WIN registrants. WIN could also provide supportive services such as child care to its registrants in CETA training. State and local government welfare costs could be reduced through increased efforts to place WIN registrants (AFDC recipients) in federally funded CETA positions.

Improvements Needed
to Coordinate Services

The history of WIN/CETA relations in California to date does not demonstrate adequate cooperation. At the end of February 1977, no formal agreements had been implemented between EDD/WIN and CETA prime sponsors. Our field surveys have revealed:

- In the San Francisco Bay Area, 10 separate prime sponsors plan and operate a variety of manpower programs. WIN staff have never been represented at the annual planning meetings of the 10 different local manpower councils which set policy for these CETA Program sponsors.

- In Los Angeles County the prime sponsor has failed to supply a listing of CETA Programs, or even the names and phone numbers of appropriate contact persons within the prime sponsor organization, despite numerous EDD regional office requests.

- In Sacramento, the Chief Manpower Planner of the regional CETA prime sponsor not only admitted he "was not up on WIN," but indicated that his organization did not enjoy cordial relations with EDD.

Our review has further revealed that the WIN central office has made relatively few attempts to identify CETA Program resources that are potentially available to WIN registrants. In addition, WIN's central office in EDD has failed to advise prime sponsors of the kind of administrative and support service benefits available to WIN registrants enrolled in the CETA Program. Finally, the office has not initiated any communication with the California Employment and Training Advisory Council.

The California Employment and Training Advisory Council (CETA Council) functions, in part, as an advisory body to the Governor on manpower matters in California. The CETA Council is 100 percent federally funded; its Executive Secretary is the Director of the State CETA Office in EDD. Prime sponsors account for seven of the 21-member body, although no representative or observer from WIN is included. The CETA Council is responsible to review and comment upon the plans and programs of CETA prime sponsors and all state agencies that provide manpower services such as WIN to Californians.

Since its first meeting in August of 1975, the CETA Council has not reviewed or commented on the annual state WIN Plan, nor has any dialogue taken place between it and the WIN central office staff located in the same building. In the fiscal year 1977-78 budget analysis of CETA Council's accomplishments to date, the Legislative Analyst concluded that "statewide coordination of employment and training programs is nonexistent."

Failure to Utilize All
Available Resources

During the 15-month federal fiscal year which ended on September 30, 1976, over $100 million in CETA Title I and Title II funds, part of which could have provided training for WIN registrants, went unused in California. This figure represents over two times the annual EDD/WIN budget for California. WIN registrants, unable to be served by WIN because of resource limitations, could have been helped by CETA if effective program linkages had been established.

Allowing federal CETA funds to go unused effectively increases state and local government costs. By using available CETA resources to serve WIN registrants, local governments could employ federal funds to reduce welfare costs which include about 50 percent state and local funding.

## Federal Leadership Absent

U. S. Department of Labor regulations governing the CETA and WIN Programs fail to provide clear directives on CETA/WIN coordination. Common goals and objectives are not defined, and requirements that CETA prime sponsors tap the WIN registrant pool of about 250,000 Californians are lacking. A special report by the National Commission for Manpower Policy recently addressed the subject of manpower program coordination and the critical nature of the federal role in its achievement.

> Only when the state and local operators see that the "feds" are committed to coordinated planning and service delivery, will they begin to pursue it actively. In short, coordinated planning is going to depend on federal initiative if it is to become a reality across the country.

The U. S. Department of Labor in February 1977 began to emphasize attempts to improve WIN/CETA coordination in California. It is too early to judge whether this action will correct some of the problems in coordination between WIN and CETA which have existed since the Comprehensive Employment and Training Act was passed in 1973.

## CONCLUSION

Federal, state, and local manpower agencies have not adequately coordinated the delivery of WIN and CETA services in California. The lack of coordination between WIN and CETA has contributed to resources going unutilized and limited training opportunities for WIN registrants. As pointed out earlier in this report, additional training opportunities for WIN registrants could improve the effectiveness of the WIN Program.

## RECOMMENDATIONS

We recommend that the California Employment and Training Advisory Council review and comment on the state WIN Plan annually. The CETA Council, in fulfilling its responsibility as the state manpower planning body, should begin to consider methods to optimize WIN/CETA coordination. In addition, the Director of EDD should take action to locate and utilize CETA openings which could be used to train WIN registrants.

## BENEFIT

These recommendations should improve coordination between the WIN and CETA Programs. Effective coordination could eliminate duplication, maximize utilization of manpower resources, and improve WIN's effectiveness.

## WIN'S MANAGEMENT INFORMATION SYSTEM IS INADEQUATE AND UNRELIABLE

WIN's management information system does not adequately address the information needs of WIN Program field office managers. The system neither gives local managers timely, reliable data on program activities, nor provides relevant information for management decisions. The inadequacy of the system has forced field office managers to maintain a duplicate manual system.

### Employment Security Automated Reporting System

The primary reporting system for the WIN, Employment Services, and Foodstamp Programs is the Employment Security Automated Reporting System (ESARS). ESARS provides data concerning the type and degree of services provided to EDD clients for the purpose of program planning and evaluation at the state, local, and national level. The goal of ESARS is to facilitate uniform planning and reporting of employment services, and to provide meaningful data upon which to base management decisions.

WIN is only a part of the ESARS reporting system developed and 100 percent funded by the U. S. Department of Labor. ESARS statistical tables on WIN display applicant characteristics and subsequent employment and training transactions affecting WIN registrants. Local and regional EDD field offices use ESARS mainly to compare historical program performance with planned performance projections.

ESARS Data Has
Limited Usefulness

During our visits to WIN field offices, we found that WIN Program supervisors were unable to use ESARS data for day-to-day operational decisions. Data processing and mailing lags often delay the arrival of ESARS print-outs to field offices until well into the month following that in which a transaction takes place. Furthermore, WIN field office managers complained to us that ESARS data are inaccurate and unreliable.

- One WIN supervisor told us that 84 entered employment transactions (more than an average month's normal production) had been lost over a six-month period. Despite the expenditure of about one man/week's effort, attempts to correct this mistake proved fruitless.

- Another WIN supervisor told us that an ESARS print-out of current WIN registrants unexplainably deleted some clients that were still officially registered and added others that had been deregistered. The field office staff had to resubmit an ESARS input form for every individual added or deleted in error. Thirty hours of staff time had to be diverted from a normally busy WIN Program to correct this mistake.

An EDD official in the Employment Data and Research Division stated that although ESARS provides enormous amounts of data, "the system does not have enough flexibility to provide relevant information to program managers." Another senior EDD official commented more succinctly, "if I can't understand what the tables say, how can I expect local managers to?"

An independent consulting firm retained by EDD to analyze the ESARS system reported in 1976 that a majority of applicant characteristics displayed on ESARS tables suffered discrepancy rates in excess of 50 percent. The study went on to state that ESARS reports are inappropriate for local field office use because:

- They are not operationally oriented.

- Too much extraneous information is displayed.

- Supplying ESARS data is too time consuming.

ESARS Inadequacy Causes
Duplication of Effort

Currently, WIN field office supervisors are forced to maintain a parallel system of manual tallies of important WIN activities and accomplishments. Updated daily by field office staff, these manual tallies are totaled monthly and used to verify and reconcile ESARS data, and to provide a reliable basis for management decision-making.

While the cost of maintaining the duplicate manual system described above is indeterminate, this effort is an add-on to the approximate $5 million annual cost of statewide ESARS operations, including about five percent of total EDD staffing.

In October 1976, EDD submitted a request to the U. S. Department of Labor to implement a sampling technique to replace complete ESARS reporting requirements. Sampling would reduce paperwork and cost while improving data reliability. The request also suggested de-emphasizing ESARS' use at the local level, including WIN, and developing an alternative reporting system. As of February 1977, the U. S. Department of Labor had made no decision on this request.

### Questionable Accuracy of Reported Welfare Savings

Welfare savings are not included in ESARS but are computed by county welfare departments and transmitted to the Department of Benefit Payments (DBP) in Sacramento. Welfare savings represent reductions in monthly welfare payments made to WIN registrants. This reduction is multiplied by twelve, or "annualized," to account for the period over which the reduction is estimated to last. Annualized welfare savings reported by the 30 counties in which WIN operates were $33.8 million during the 15-month federal fiscal year 1975-76. However, some counties did not keep accurate records of grant reductions, and some social workers do not report savings at all because they resent WIN's taking credit for jobs that welfare recipients find on their own. For these reasons, the amount of savings reported by the counties was considered too low by EDD whose federal WIN Program funding substantially depends on welfare savings accomplishments. To compensate for this understatement, reported welfare savings were adjusted upward by about 10 percent to $37.2 million for the fiscal year to arrive at their reported total.

We agree that some welfare grant reductions may be under-reported. However, the reporting system also ignores certain offsetting factors which may cause welfare savings to be over-reported.

- Perhaps as many as 20,000 new WIN registrants each year have been in the program before but no adjustment to welfare savings is made if such persons reregister within one year.

- WIN clients who fail to cooperate with the program may be discontinued from WIN and lose part of their grant as a sanction. This reduction is counted as a savings although it does nothing to reduce dependency on public assistance.

- WIN clients who do not find work and remain on welfare frequently have their grants increased due to cost-of-living adjustments, family enlargement, etc. Yet, these increases are not taken into account when WIN welfare savings are computed, that is, negative savings are ignored.

Hence, the amount of welfare savings reported by EDD reflects gross grant reductions only, and ignores the impact of reapplication for AFDC and grant increases. These factors cast substantial doubt on the reliability of welfare savings reported by EDD and on WIN's impact on the cost of welfare generally.

## CONCLUSION

Action is needed to improve the WIN management information system. The current ESAR system does not adequately provide reliable, timely information to local managers. In addition, the system is of limited value as a tool for assisting managers in their program decision-making. Methods need to be developed that adequately provide for information needs and eliminate duplicate information systems. WIN's impact on the overall cost of welfare cannot be determined from welfare savings as currently reported by EDD.

## RECOMMENDATIONS

EDD should continue its negotiations with the U. S. Department of Labor to develop an information system which is more responsive to the needs of program managers. In addition, EDD should eliminate the need for the duplicate information systems now being used.

Further, in subsequent Annual WIN Program Reports to the Legislature, we recommend EDD and DBP include a section to describe WIN's overall costs and benefits. Such description should include a clear explanation and quantification of the different factors which influence the WIN Program's effect on the cost of welfare in California.

BENEFIT

These recommendations should improve WIN's management information system. An adequate and reliable management information system will improve the quality of information available to program managers and legislators in assessing WIN's progress and impact.

Respectfully submitted,

JOHN H. WILLIAMS
Auditor General

March 24, 1977

Staff: Thomas W. Hayes
Fred Kalhammer
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STATE OF CALIFORNIA—HEALTH AND WELFARE AGENCY EDMUND G. BROWN JR., Governor

EMPLOYMENT DEVELOPMENT DEPARTMENT
SACRAMENTO 95814 (916) 445-9212

March 25, 1977

REFER TO:

Mr. John H. Williams
Auditor General
Joint Legislative Audit Committee
Office of the Auditor General
925 L Street, Suite 750
Sacramento, California 95814

Dear John:

I have reviewed the Audit Report of the State of California WIN Program, and I appreciate the opportunity to respond to the report.

Of the myriad manpower programs that have been tried under MDTA, CEP, PEP, etc., or that are now being operated under CETA: WIN is the only employment program specifically targeted toward recipients of AFDC. The AFDC program is the largest welfare program both in terms of welfare dollars expended and in number of persons served.

WIN provides services based on the needs of the individual, through institutional and on-the-job training, job finding workshops, and WIN supportive services required to enter and remain in employment.

The WIN Program is working well in California in spite of problem areas and federally restrictive regulations. California's WIN Program in a fifteen-month period ending September 30, 1976, exceeded federal goals for employment of welfare recipients by 24 percent. California's entered employment goal was 37,000; 46,133 registrants actually entered into employment, exceeding the federal goal by 9,133.

California's accomplishments in this fifteen-month period far surpassed the next four populous states (based on AFDC caseload). California achieved 16 percent of national entered employment, compared to 6.1 percent for New York, 5.8 percent for Illinois, 4.2 percent for Pennsylvania, and 3.5 percent for Michigan.

For the same period of time, California's WIN job retention rate also far surpassed the same four states. In California, 84.7 percent of registrants entering employment were still employed at the end of thirty days as compared to 60.0 percent for New York, 61.7 percent for Illinois, 68.7 percent for Pennsylvania, and 77.0 percent for Michigan.

Approximately 128,713 AFDC recipients have been employed in California in the last four years through the efforts of the program.

To make the WIN Program operate efficiently, we strongly encourage registrants to find their own employment. This is not to say that we do not provide them extensive assistance. At the time of initial registration, WIN clients are given labor market information. Current Employment Development Department policy is to place as many registrants as possible into job finding workshops. Both of these activities are geared toward aiding registrants to seek their own employment. If these two activities are successful, increasing numbers of registrants will be obtaining their own jobs.

We feel that in regard to the delivery of services to clients most in need of training we have reached the limit of state authority. We can do little more in WIN without federal waivers or change in legislation for specific problem areas. Therefore, we welcome your auditor's recommendations, which provide additional support to our efforts.

EDD has recognized the need for program improvement through relaxation of specific federal constraints. EDD, in their Seventh and Eighth Annual Reports to the Legislature, made specific recommendations for program improvement. (See Attachments 1 and 2.)

In the Seventh Annual Report and the Eighth Annual Report we spoke to the unproductive process of mandatory registering of masses of people who are unsuitable for WIN participation and others who can never be adequately served within the program funding level.

In the Seventh Annual Report and the Eighth Annual Report we speak of the proposed WIN Private Sector Project. This project included a waiver of the 100-hour work limit.

The audit report supports two of EDD's recommendations which were submitted in February of 1976 and in March 1977, to National HEW/DOL. These two proposals ask for (1) approval of a waiver of the 100-hour work limit which discourages AFDC fathers from working full time, and (2) approval of a waiver of the mandatory registration requirement of all welfare applicant recipients.

Four years ago, EDD recognized the need for WIN-CETA coordination. At that time, field office instructions were issued to encourage local program coordination. As a result of this coordination, we average approximately 1700 WIN registrants in CETA training employment.

CETA has a responsibility to consider all possible target groups. However, it needs to be understood that local prime sponsors are not required to pick specific target populations to serve nor must they deal with state agencies. Some groups may have no other resources. CETA does not always develop programs that are compatible with Federal WIN component standards or individual WIN registrants employability plans.

EDD, the State CETA Council and the Employment Service Board have recognized the need for coordinated planning and policy. Since October of 1976, they have had a joint committee working to accomplish unified planning. The recent Title VI amendments to CETA have resulted in EDD, DBP and WIN initiating a series of joint planning meetings which will be continued.

The first concrete Federal instructions for WIN-CETA coordination were issued to prime sponsors February 10, 1977. In order to continue coordination to expand local efforts, continued emphasis must come from the federal level.

We have been informed by the State CETA Office that the amount of unspent CETA funds available to city and county governments in California during the fifteen-month period ending September 30, 1976, was approximately $83 million. Since CETA funding is allocated for two years, a substantial amount of this was obligated for ongoing contracts. None of these funds reverted back to the Federal Treasury. EDD has absolutely no control over these funds.

California has recently made advances in overcoming interagency coordination problems. The inherent difficulties of operating a program by two state departments and thirty county welfare departments have been largely overcome through intense efforts in communication and joint problem solving.

This audit report can be influential in obtaining Federal cooperation for WIN Program improvements. If California can obtain the requested waivers and federal cooperation in other cited program areas, WIN could be substantially improved in this state.

We hope that the State Legislature will strongly consider supporting the recommendations of this report to request removal of restrictive federal constraints that impede effectiveness of the WIN Program.

Sincerely,

Martin R Glick

MARTIN R. GLICK
Director

Attach.

IV. FUTURE WIN OBJECTIVES

A. WIN has always been burdened with what seems excessive paper processing and unusually cumbersome procedures. Factors contributing to this dilemma include complexity of administration; broad scope of WIN's approach and responsibility, mandatory coordination of procedures between three other agencies (Department of Benefit Payments, various County Welfare Departments and Department of Labor) rendering services exclusively to a large section of the hardcore, disadvantaged population living in diverse labor markets in a populous and geographically large state and/or combinations of the above. Because of these complexities, periodic attempts at streamlining operations are necessary.

WIN staff at all levels are currently working and will continue working together to effect the most extensive simplification project undertaken since the inception of the program. Because of interagency cooperation and dependence, requesting waivers from DOL in specific areas may be necessary. The aim of this simplification is to eliminate a substantial amount of the paper processing so that the time saved can be devoted to improving the ultimate goal of the program: assistance in job finding.

B. WIN will increase emphasis on assistance to clients in finding jobs through extensive use of the new Intensive Manpower Services (IMS) component. WIN recognizes that many registrants have obtained jobs exclusive of actual job referral and job development. This occurs because of ancillary services offered by EDD or client effort unrelated to the Department.

Because the registrant pool is so large, WIN believes this kind of self-initiative should be encouraged. WIN can assist registrants in acquiring such independence by teaching job finding skills in the IMS component. WIN plans that all new WIN registrants be considered for and <u>most</u> enrolled initially into IMS.

C. WIN is presently attempting to rectify a major disincentive to WIN clients. This occurs because present interpretation of Food Stamp Regulations require the WIN incentive payment and/or training related expenses reimbursements to be included when computing income. This results in increasing the cost to clients for Food Stamps. There have been cases where the increase in cost of stamps plus transportation costs have exceeded the reimbursement of expenses. This defeats the purpose of the incentive payment because these reimbursements are meant to defray the additional costs of participation. We have requested the appropriate agency to review the Federal Regulations to remove this deterrent to participation in the WIN Program.

D. We anticipate an increase in the registrant pool due to HR 10210 becoming law. This legislation makes U-fathers receiving Unemployment Insurance (UI) federally eligible and their registration with WIN required. We have been unable to get a reliable projection as to the increase of workload at this time.

E. WIN is requesting waivers from the Federal Government for a demonstration project in the registration of welfare recipients. This project proposes voluntary registration for WIN. An EDD-WIN interviewer, outstationed

in the county welfare department, would register only those volunteers whom the interviewer believed could benefit in WIN.

The following data points out a need to try a different registration approach:

| Periods Covered | Cumulative Registrations | Registrants On Hand | Cumulative Entering Fulltime Employment |
|---|---|---|---|
| FY July '75 thru June 30, 1976 | 355,214 | 237,789 | 33,821 |
| Transitional Quarter ending September 30, 1976 | 387,633 | 230,392 | 41,436 |

Approximately 5% of the "Registrants On Hand" were actually participating in components at the end of each of the "Periods Covered" above.

Although registration is not a component, it is one of 13 budgeted items (the other 12 are directly related to component activity and expenditure). Registration, under current procedures, will require 16% of the operating budget which is almost equal to the total budget being allocated for IMS or OJT subcontracting.

It seems apparent from these statistics that WIN cannot serve all the registrants and that the registration process, which in itself does not provide employability services, is very costly in both time and money. Not only does it deplete the limited resources WIN has, but many registrants never become welfare recipients, or if they do, cannot benefit from WIN services. Nevertheless, all AFDC applicants who meet mandatory WIN referral requirements are required to register.

Interestingly, registration is only the beginning of a larger problem. For every client registered, there is ultimately a deregistration. This requires another form. In the interim, the work application remains active, takes up space and makes file search for qualified clients cumbersome. There is also a constant flow of notices from the County Welfare Department to be checked, acted upon and filed. Determination issues must be resolved. In conclusion, the majority of staff time and paperwork is for registrants who never enter a WIN component or employment.

Although numbers registered is an important part of budget allocation, WIN feels the solution to the problem may be to register only those clients who can benefit from WIN. The demonstration project is needed to prove or disprove this theory.

F. WIN has requested a waiver for a WIN Private Sector Project. This is a proposal for a three-year demonstration project that would use public funds to contract with private employers who will provide jobs for volunteer AFDC recipients in specified work projects. Theoretically, the job creation in the private sector would be more effective than in the traditional WIN components of PSE and OJT and there would also be a greater transition to unsubsidized employment.

WIN proposes to test the project in two or three moderate-sized counties to provide a comparative study between them and the other counties utilizing WIN-OJT, WIN-COD and PSE. Total cost would be held to $5 million.

Local EDD offices in cooperation with local groups and public entities would identify and describe needed work projects which would benefit the community. EDD would then contract with private profit and non-profit bidders on the basis of specified criteria.

Salary paid to a participant, depending on the complexity of the job, would vary from minimum wage to a maximum of $667 per month. Average wage would be $480 a month. Length of employment could vary from 6 to 18 months. (Above amount may be subject to change depending on inflation and family size.)

ATTACHMENT #1------PAGES FROM SEVENTH ANNUAL REPORT TO THE LEGISLATURE

IV. BARRIERS TO WIN EFFECTIVENESS

Although the California WIN Program is considered to be the most successful WIN Program in the Nation, barriers to a more effective program seriously limit its success. The worst deficiencies in the program are:

1. The unproductive and unnecessary paperwork and bureaucratic processing of masses of people who are never served by the program.

2. The narrow focus and mandatory emphasis on the OJT and PSE components.

1. Paperwork and Processing

It is estimated that about 30% of WIN staff time is consumed in filling out forms and processing over 338,000 registrants. These functions are associated with two WIN requirements:

a. Registration Process - AFDC applicants/recipients are required to register with EDD for employment, manpower services or training unless determined exempt under statutorily established criteria. Mandatory registration results in masses of people being referred who are unsuitable for WIN participation and who would never be adequately served with current fund levels.

b. Certification - Current federal law and regulations require mandatory certification of all AFDC-U registrants and federal funds may be withheld from the county when this is not done. The SAU is to certify that necessary supportive services have been arranged, provided or are available to enable a registrant to accept employment or manpower services. Such mandatory certification results in the completion of a substantial number of certifications without necessary services being either considered or provided. This is done only to insure that county funding is not affected.

2. WIN PSE/OJT Emphasis

The Social Security Act and related federal regulations require that 33 and 1/3 percent of WIN funds shall be expended for WIN-OJT and Public Service Employment. Federal interpretation of the percentage expenditure includes federal administrative costs, which raises the figure to 37 percent of WIN funds for FY 1975-76 that California must expend on PSE and OJT.

a. Public Service Employment - The private sector of the labor market is and should continue to be the nation's primary employer. Manpower policies and programs should be directed toward the creation of additional jobs in the private profit and nonprofit sector.

While Public Service Employment (PSE) is an effective tool for assisting persons to learn new skills, increase career development opportunities and upgrade earning potential, more emphasis is needed to create jobs in the private sector.

It is difficult, and so far has proved impossible, to refrain from substituting PSE employees for regular public employees, thereby merely subsidizing local governments but creating no new jobs.[1/] More appropriate mechanisms are required for dealing with decreased local tax revenues caused by recessions, such as anti-recessionary revenue sharing proposals now before Congress.

Secondly, PSE slots require considerable time to develop and are slow or impossible to stop. The PEP Program for example, took 9 months to reach its planned enrollment of 162,000 jobs.[2/] There is evidence that a saturation point is reached in the number of public service jobs that can be filled.

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1/ National Commission on Manpower Policy, Special Report No. 1, May 1975, page 127. "These studies indicate that budget substitution results in additional unemployment equal to only 50% of the PSE slots in the short run and a mere 10% to 40% of the PSE slots in the long run."

2/ Congressional Budget Office, Temporary Measures to Stimulate Employment, September 2, 1975, page 35.

Finally, the substitution effect leads to public expectation of either reduced taxes or increased services, and ultimately to consumer demand that cannot easily be turned off.

Expansion of governmental bureaucracy is not a viable solution to unemployment. Only after all other measures, including public work in the private sector, have been tried and found wanting should government consider substantial additions of public employees. The concept of using public funds to create employment in the private sector needs to be tested and evaluated.

b. <u>On-the-Job Training (OJT)</u>

The OJT Program has two major impediments to its success. The first problem is the difficulty of enforcing the transition requirement to an unsubsidized job. The great majority of employers will hire new employees (including OJT trainees) only when their production demands require more manpower. The failure rate of OJT transition is over 50%. One must question the soundness of public investment of funds in a program which will fail 50% of the time.

Secondly, the CETA Program has become fully implemented. CETA Prime Sponsors and their subcontractors have been competing for referrals to OJT slots. WIN simply does not compete favorably with CETA-OJT expecially under CETA's Title VI Program, which carries no transition requirements.

## V. PROPOSED DEMONSTRATION PROJECT

In view of the deficiencies cited above, and in response to recommendations of the Legislative Analyst regarding the WIN Program, EDD has been seeking ways to improve the program's efficiency and effectiveness. The following considerations provide the underlying rationale for the proposed demonstration project.

1. High unemployment in California has resulted in substantial social and monetary costs to the people of California, especially to those at the lowest income levels;

2. Many unemployed citizens unable to obtain work have had to depend on welfare assistance in order to insure a minimum level of sustenance for their families;

3. Current programs intended to assist welfare recipients to obtain employment need to be streamlined and made more effective;

4. There are numerous projects of lasting value to communities which could be accomplished if resources were made available;

5. The loss of productivity among the unemployed can never be recovered, nor can the accompanying losses in tax revenues, income maintanance payments, and the added costs of higher crime rates, more health problems, family disruption, and related social problems which accompany high unemployment;

6. Eighty (80) percent of all jobs are in the private sector of the economy and the private sector has the greatest potential for creating new and permanent jobs.

In view of the above, the Departments of Employment Development and Benefit Payments propose to develop and implement a three-year demonstration project which will use available funds to ascertain the feasibility and comparative public benefits of contracting with private sector organizations to complete specified work projects, employing able-bodied recipients of Aid to Families with Dependent Children (AFDC) and other unemployed persons.

These public work projects, identified in cooperation with local public entities should:

1. Provide gainful employment as an alternative to welfare dependency.
2. Utilize the potential productivity of the unemployed.
3. Provide a visible community benefit which would not otherwise be accomplished.
4. Maintain and develop skills of the unemployed.
5. Facilitate transition of project participants to non-subsidized jobs.
6. Develop a cost-effective alternative to Public Service Employment and On-the-Job Training components of the Work Incentive Program.

Program Elements

Two interrelated program elements are required to accomplish the above goals:

1. WIN Simplification

   The current WIN Program is overburdened with inefficient and unproductive processing requirements imposed by federal grant allocation methodologies. Massive numbers of AFDC recipients

who will never receive a WIN service are required to go through a cumbersome registration and certification process. This is often costly in terms of time and money, to clients as well as the affected agencies. During fiscal year 1974-75, for example, only 19.2% of those registered were certified as job ready and fewer yet were ever placed in training or unsubsidized employment. In order to improve the cost-effectiveness of the WIN Program, simplification of the registration and certification process is essential. It is equally crucial that the federal methodology for allocation of the WIN grant be modified so that California's proportion of Work Incentive Program funds is not lowered.

During the course of the project systems will be developed and implemented which will streamline the WIN registration and certification process in order to reduce bureaucratic waste. These systems will be developed cooperatively by the affected County Welfare Departments and the Departments of Benefit Payments and Employment Development. It would be desirable if the new system could provide for an assessment and prescreening mechanism to categorize AFDC applicants as follows:

- Job Ready: Employment Services Needed

  Adults who have recent work experience and are attached to the labor market or those who have no identifiable barriers to employment and have sufficient skills to be competitive in the labor market. Employment services should include labor exchange and job match, job development and related functions.

- <u>Not Job Ready: Training/Social/Health Services Needed</u>

  Adults who are not attached to the labor market, who do not have competitive labor market skills or who have barriers which preclude employment until their removal or amelioration through training or social services. Self-support services for the non-job ready should encompass those training, education and related services which are designed to remove barriers to employment. These services might include those of CETA, County Vocational Services and Title XX services related to the self-support goal. The planning and operation of all self-support services should take place at the local level to insure efficiency and coordination of resources. Such services would be developed by the CWD in cooperation with the local CETA Prime Sponsors, the school systems and local service agencies.

- <u>Employment Goal Not Appropriate</u>

  Adults who have severe or chronic barriers to employment which cannot realistically be removed, or adults whose most significant and productive activity requires that they not compete in the labor market, but rather remain at home providing homemaking services, child care services or similar domestically orientated services for other family members which would otherwise be provided through publicly-funded service programs.

In the streamlined registration system AFDC applicants would be referred to a specialized service unit (the SAU) within the County Welfare Department (CWD) for assessment and categorization. Those who meet defined criteria for the "job-ready" category would

be referred to the EDD Employment Services Unit. Those who fall into categories two and three would remain the responsibility of the CWD, which would develop an appropriate training or services plan using available resources.

The EDD Employment Services Unit would provide intensive job placement services for the job-ready, including placement into jobs specifically and exclusively created for WIN clients.[3/]

Although other appropriate models which increase cost-effectiveness could be developed for testing, the above concept is offered as a potentially valuable system. This model is depicted as a client flow chart on the next page.

2. <u>Job Creation in the Private Sector</u>

The WIN Program has traditionally emphasized job creation efforts in the public sector. There has not been a recent definitive demonstration of the ability of the private sector to join in a public works job creation effort for welfare recipients.

California has experimented, on a small basis, with job creation in the private sector. Several highly successful projects have been in operation for up to one year. These involve contracting with private nonprofit community organizations to repair a school which had been damaged by vandalism, conversion of an abandoned urban jail to a recreation and community center, and the relocation of houses out of hazardous airport landing patterns. Union journeymen were hired to train and supervise welfare recipients in the pre-apprenticeship tasks required to accomplish the meaningful and visible work done in these projects.

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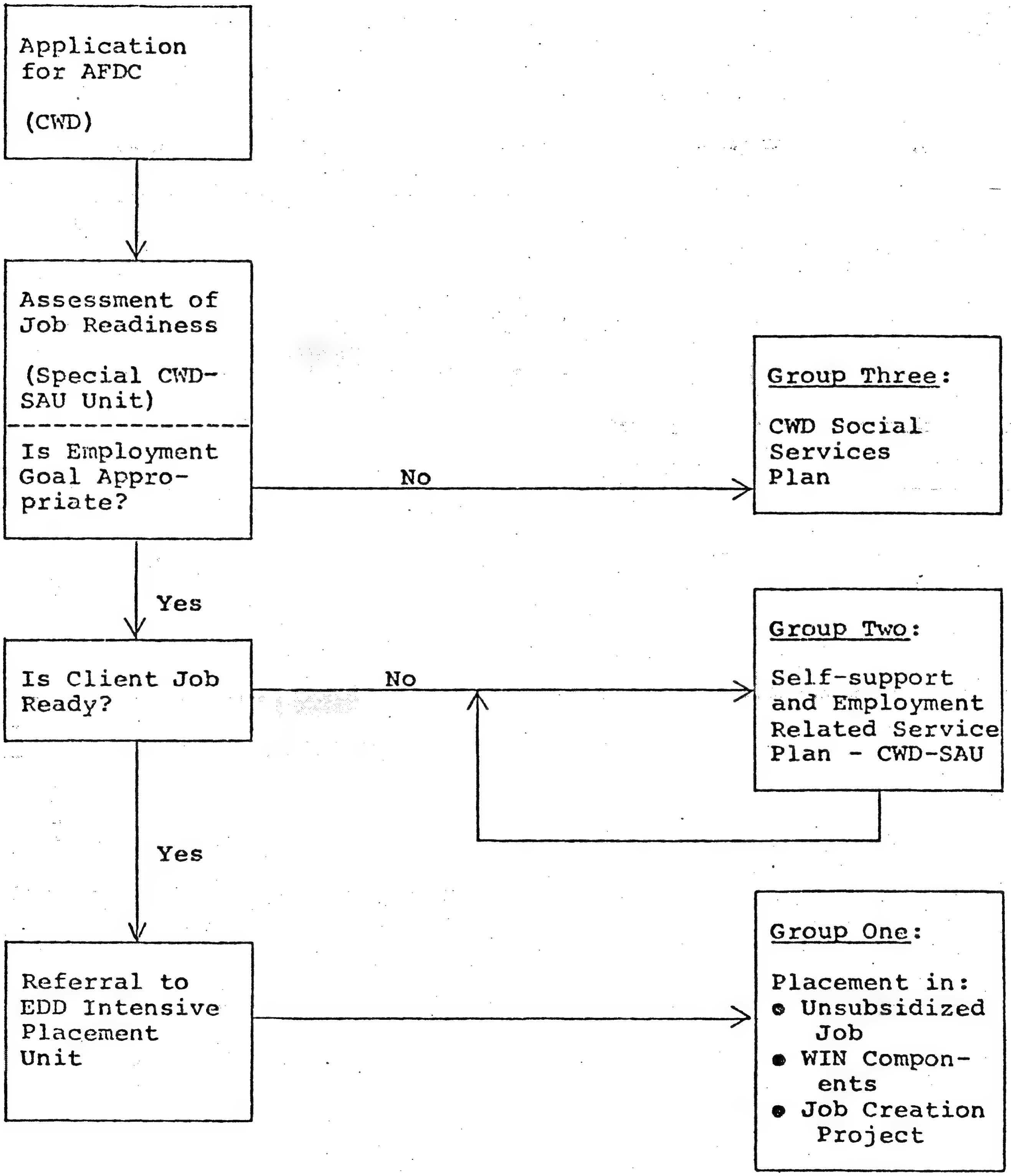
[3/] Placement of clients into On-the-Job Training (OJT) and Public Service Employment (PSE) slots is a function which most appropriately is a part of "job placement" rather than training.

SUGGESTED

WIN CLIENT FLOW



Every community can identify needed public works which will not otherwise be undertaken. These might include such projects as rehabilitation of child care and recreation centers, parks and playgrounds, improvement of migrant housing, conservation and repair of buses for the handicapped and elderly, removal of architectural barriers to the handicapped, insulation and safety repair of homes in red-lined districts, environmental conservation and rehabilitation of deteriorated neighborhoods and public recreation areas.

There is a great deal of work to be done. The community is responsive and eager. A demonstration of this approach would provide documentation of the feasibility and desirability of applying this strategy on an expanded basis.

Project Selection

The project selection process would consist of two phases. The first phase is the project identification process. Local EDD offices would invite local groups and public entities to identify and describe needed work projects which would benefit the community and would meet specified criteria developed by project staff. Identified projects would be ranked in priority. Criteria would be based on the program goals listed on page 25 plus other social and environmental priorities of the local community and the state and the willingness of local entities to contribute to the funding of the project. Those projects ranked highest would be selected for funding.

The second phase is the implementation process. Requests for Proposals (RFP's) would be developed and sent to potential bidders (private profit and nonprofit) to accomplish each of the selected projects. These proposals would be reviewed and bid selection would be based on the following criteria:

1. Labor intensity of the proposed projects as measured by the proportion of total funds expended for direct salaries and wages. No more than 25 percent of the funds awarded for any contract shall be expended for other than salaries and wages.
2. The program shall give projects of lasting value to the community which are developed jointly by labor and management organizations, with links to apprenticeship and training programs.
3. The comparative impact of proposed projects on the targeted group, as measured by the percentage of recipients of Aid to Families with Dependent Children who will be hired. Skilled workers and journeymen may participate in the program as required to insure performance standards and technical supervision. A minimum of 75 percent of all project employees funded under this part shall be applicants or recipients of Aid to Families with Dependent Children.
4. The comparative value of the proposed projects' potential to utilize and develop competitive labor market skills among the targeted unemployed.
5. The comparative value of the proposed projects' potential to result in the transition of welfare recipients to unsubsidized employment.
6. The demonstrated ability of the entity proposing the project to carry out the proposed project in a fiscally responsible manner.

Special conditions would also have to be met by the contractor and EDD. These would include:

1. Appropriate standards for health, safety, and other conditions applicable to the performance or work, including workers' compensation insurance.
2. That the projects shall not result in the displacement of persons currently employed, or the filling of established unfilled position vacancies, or supplanting already planned work projects.
3. Reasonable conditions of work, taking into account the geographic region, the residence and proficiency of the participants.
4. That each project shall be completed within 18 months from the date the contract is approved.
5. That the rights of all persons to equal employment opportunities shall be protected.
6. That the private profit or nonprofit entity shall furnish such information, reports, records, and access to its premises to the Employment Development Department, and shall comply with such reasonable provisions for periodic audit by the department, to insure fiscal integrity and compliance with the conditions of the contract.

<u>Project Operation</u>

The identification of possible project participants would start at the time of initial application for an AFDC grant with the County Welfare Department. After referral through the county's assessment and categorization process described above, EDD's Employment Services Unit will provide intensive job placement and related employment services to project participants to facilitate entry into unsubsidized employment.

When unsubsidized employment is not available, appropriate recipients will be offered the opportunity to accept a project job. Appropriateness will be determined by availability of openings in projects, job skills, availability of transportation and other criteria to be developed.

Only those Aid to Families with Dependent Children recipients who are eligible for the Work Incentive Program and who volunteer for participation in a work project shall be referred by the County Welfare Department to the Employment Development Department for employment. The provisions of Section 5301 of the Unemployment Insurance Code, and of Sections 11308, 11308.5, 11308.6, 11308.7 and 11308.8 of the Welfare and Institutions Code shall not apply to these participants.

Participants shall not be disqualified for assistance on the basis of employment, unless the gross annual earnings of the recipient exceed $8,000.

Deductions from the AFDC grant resulting from income earned as a participant under a project shall be computed using the existing "30 and 1/3" methodology as provided by Section 402(a)(8)(A)(ii) of the Social Security Act as amended.

Employees hired under the project will be entitled to fringe benefits equivalent to those of unsubsidized employees, but without accruing paid vactions. They will be assured all rights of regular employees.

In order to provide the necessary staff support to the project, EDD will be authorized to expend project funds to cover overhead costs. These costs will include Central Office coordination, fiscal control,

contract control, Field Office coordination, monitoring, transition and evaluation. EDD auditors will conduct pre-, current and post-audits of each project as appropriate to insure fiscal integrity and compliance with contract conditions.

## Project Evaluation

Project evaluation will be conducted, preferably by an independent contractor. Funds for the evaluation will be secured by EDD from DOL and/or HEW. The evaluation design and methodology will be initiated when the project is approved. The plan will be jointly developed by EDD and DBP with consultation of the Department of Finance based on three major project hypotheses:

1. That the use of public funds for job creation is more effective in the private sector than in the traditional WIN components of PSE and OJT.
   - More cost effective when all public monies are included.
   - Greater transition to unsubsidized employment.
   - Less substitution for normal hiring.
   - Greater client satisfaction.
   - Less administrative complexity.
   - More favorable community reaction.

2. That the majority of recipients of AFDC prefer to work for pay in a work project to remaining unemployed.
3. That the registration and assessment process can be made more efficient and productive.

A reporting system will be developed as part of the evaluation methodology. Statistical information will include, but not be limited to:

1. The description of each project undertaken.
2. The contracts and associated expenditures for each approved project.
3. The number and characteristics of persons deciding to accept and not to accept such employment, and the reason for such decisions.
4. The number and characteristics of persons leaving project employment, and the reason for leaving.
5. The ability of recipients of Aid to Families with Dependent Children to adequately perform work assignments and related job duties.

The computation of welfare savings will be based on the reduction of the grant resulting from project earnings plus the additional recipient contribution in the purchase of food stamps.

The final evaluation report shall be submitted to the Governor and the Legislature and will include a recommendation to terminate, extend, or expand the program.

## VI. EXPECTED IMPACT OF PROPOSAL

The California Job Opportunity Project is expected to have a substantial impact on welfare recipient participants, employer participants, local communities and all levels of government. A successful demonstration of this approach would logically lead to a more extensive application of this model throughout the state, and possibly throughout the nation.

The immediate impact on AFDC participants include the following:

1. A modest increase in the family's net income depending on family composition. (See Attachment A for examples.) At the ceiling level, the net increase for working would be between \$235.00 and \$352.00 per month.
2. Removal of present disincentives to accept fulltime employment among unemployed parents (AFDC-U category). Persons receiving a grant under the AFDC-U program will not lose eligibility for a reduced grant, even if they work more than 100 hours in a month.
3. Development of work skills, experience and a direct attachment to the labor market.
4. The personal satisfaction, dignity and self-esteem associated with holding a job.
5. Increased opportunity and likelihood of moving into unsubsidized employment.

Employers, private profit and nonprofit organizations, are expected to benefit from the project in several ways:

1. Projects will provide them with the chance to increase or maintain their production capacity and operating levels.
2. Profits realized will enable firms to invest capital, expand operations, and create additional unsubsidized jobs.
3. Firms will be enabled to train and maintain a labor force with up-to-date skills.
4. Firms will qualify for a 20% tax credit on the salaries of all newly hired welfare recipients, under existing law.
5. Firms will generate a favorable public image for willingness to participate in this worthwhile program and for their role in completing needed community projects.

The impact on government is expected to include long-range and short-range benefits:

1. Under a continuing program, governmental expenditures will decrease for welfare grants, social services, food stamps and administrative costs.
2. Government outlays for welfare grants and food stamps will be reduced in proportion to the number and wages of project participants. It is estimated that 3,000 participants earning $3.00 per hour will result in total savings of at least $4,680,000 in public funds. (See Attachments A and B.)
3. If the program were implemented on a sufficiently large scale, costs associated with unemployment such as increased crime rates, health problems, and family break-up, would be proportionately reduced.
4. Public monies would be expended to create jobs and perform productive and needed projects rather than maintaining unproductive families at a subsistence level.
5. Government will be working more cooperatively with local communities to achieve mutual goals without expanding the public bureaucracy.
6. Tax revenues will increase in proportion to the number of new wage earners.

The advantages to the local communities are obvious. It is anticipated that many projects can be combined with local community initiatives already receiving funds from revenue sharing or other sources. The community pride in accomplishing worthwhile projects frequently carries

with it indirect benefits. For example, the recent project involving community residents to restore a school damaged by vandalism cited above has resulted in a reduction of 90% in the incidence of vandalism at that school.

## VII. PROPOSED FUNDING

The funds to pay for the project would come from two sources, a reallocation of a portion of WIN resources, and the State General Fund. At an estimated average cost of $8,500 per job, almost 3,000 jobs can be established at a total annual cost of $25,000,000. Approximately $15,000,000 of these funds will come from WIN and $10,000,000 from the General Fund. The state will request that one-half of all federal savings which occur as a result of AFDC grant reductions due to earnings from this program be returned to the state program for additional job creation. In addition, the state will request $500,000 of federal funds to conduct the evaluation.

Summary of Funding:

| | | |
|---|---|---|
| State General Fund | $10,000,000 | |
| WIN Redirected Funds | 15,000,000 | |
| Federal Evaluation Funds | 500,000 | |
| TOTAL | | $25,500,000 |

## ESTIMATED IMPACT

Assumptions:

- Recipient works 12 months at 160 hours per month.
- AFDC-FG family of three consisting of one adult who is an unmarried head of household with two children (Income Tax computation purposes)
- There is a need for child care for the AFDC-FG family.
- Child care costs for two children = $100.00
- Transportation costs = $40.00
- No special needs.
- 100-hour limitation of hours worked for AFDC-U recipients waived.
- AFDC-U family consists of married couple with two children (Income Tax computation purposes).

| | AFDC-FG Family of Three (1 Parent, 2 Children) | | | | AFDC-U Family of Four (2 Parent, 2 Children) | | | |
|---|---|---|---|---|---|---|---|---|
| | Average Wage $5,760 | | Ceiling Wage $8,000 | | Average Wage $5,760 | | Ceiling Wage $8,000 | |
| PER MONTH: | | | | | | | | |
| Maximum Grant | | $293 | | $293 | | $345 | | $345 |
| Gross Monthly Earnings | $480 | | $667 | | $480 | | $667 | |
| Minus $30 | - 30 | | - 30 | | - 30 | | - 30 | |
| | 450 | | 637 | | 450 | | 637 | |
| Minus 1/3 of Remainder | -150 | | -212 | | -150 | | -212 | |
| | 300 | | 425 | | 300 | | 425 | |
| Involuntary Deduction (Income Tax, OASDI) | - 60 | | - 78 | | - 32 | | - 76 | |
| | 240 | | 347 | | 268 | | 349 | |
| Child Care | -100 | | -100 | | -0- | | -0- | |
| | 140 | | 247 | | 268 | | 349 | |
| Transportation | - 40 | | - 40 | | - 40 | | - 40 | |
| Reduces Grant by | 100 | -100 | 207 | -207 | 228 | -228 | 309 | -309 |
| Reduces Grant to | | 193 | | 86 | | 117 | | 36 |
| Recipient Gets | | | | | | | | |
| Grant | | 193 | | 86 | | 117 | | 36 |
| Earnings (Net) | | 420 | | 589 | | 448 | | 591 |
| Total | | 613 | | 675 | | 565 | | 627 |
| Recipient Gains | | 320 | | 382 | | 220 | | 282 |
| Additional Cost for Food Stamps* | | 30 | | 30 | | 47 | | 47 |
| Net Recipient Gain per Month | | 290 | | 352 | | 173 | | 235 |
| TOTAL ESTIMATED WELFARE AND FOOD STAMPS SAVINGS | | | | | | | | |
| Savings to Government per Family per Month | 130 | | 237 | | 275 | | 356 | |
| Federal (HEW) | | 50 | | 104 | | 114 | | 154 |
| Federal (USDA) | | 30 | | 30 | | 47 | | 47 |
| State | | 33 | | 69 | | 76 | | 103 |
| County | | 17 | | 34 | | 38 | | 52 |

*Assumptions:
- No extraordinary shelter, medical, child care, or transportation.
- No child support, alimony, or educational costs.

TOTAL ESTIMATED WELFARE AND FOOD STAMP
SAVINGS FOR ONE YEAR
BASED ON 3,000 EMPLOYMENT LEVEL *

| | Family of Three - AFDC-FG | | Family of Four - AFDC-U | |
|---|---|---|---|---|
| | Average Wage $5,760 | Ceiling Wage $8,000 | Average Wage $5,760 | Ceiling Wage $8,000 |
| TOTAL | $ 4,680,000 | $ 8,532,000 | $ 9,900,000 | $12,816,000 |
| Federal (HEW) | 1,800,000 | 3,744,000 | 4,104,000 | 5,544,000 |
| Federal (USDA) | 1,080,000 | 1,080,000 | 1,692,000 | 1,692,000 |
| State | 1,188,000 | 2,484,000 | 2,736,000 | 3,708,000 |
| Counties | 612,000 | 1,224,000 | 1,368,000 | 1,872,000 |

*Figures are derived from Attachment A x 3,000 participants x 12 months.

EDD News Release No. 110

State of California
EMPLOYMENT DEVELOPMENT DEPARTMENT
800 Capitol Mall
Sacramento, CA. 95814

11 January 1977

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California's WIN program in a 15-month period ending September 30, 1976 exceeded Federal goals for placing welfare recipients in jobs by 24 percent, surpassing other populous states with high WIN activity in job placements and saving at least $37 million in welfare funds.

This was reported today to the Legislature by Martin R. Glick, director of the Employment Development Department (EDD) which administers the Work Incentive (WIN) Program, funded 90 percent by the Federal government and 10 percent by the State.

During the report period California placed 46,133 WIN participants (all on welfare and either disadvantaged, unemployed or underemployed) into employment.

This performance surpassed the Federally-set goal of 37,000 job placements by 9,133 or 24 percent over 100 percent of goal accomplishment. A minimum welfare saving of $37 million was identified by the State Department of Benefit Payments, chiefly through welfare grant reductions.

Comparative Federal statistics show California's WIN program placed a higher percentage of welfare recipients into jobs and achieved a higher job retention rate than did other WIN-active populous states, such as New York, Illinois and Michigan.

However, EDD's eighth WIN report to California lawmakers said that while the program appears relatively efficient in a state-by-state comparison, it suffers from an excess of Federally-required paperwork, particularly registration of persons unable to benefit from WIN services.

Glick said EDD recommends Federal approval of California WIN waivers and demonstration projects to eliminate useless paperwork. The reforms could improve WIN's efficiency in helping work-capable welfare recipients make the transition into productive tax-generating jobs in the private economic sector.

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CONTRACT NO. 53-3-013-06

# THE IMPACT OF WIN II:
# A LONGITUDINAL EVALUATION

An Evaluation Submitted by:

Pacific Consultants,
together with
Camil Associates and
Ketron, Incorporated

to:

Office of Program Evaluation
Employment and Training Administration
U.S. Department of Labor

and

Social and Rehabilitation Service
U.S. Department of Health, Education and Welfare

September 1976

# I. INTRODUCTION AND SUMMARY

The purpose of this report is to provide a comprehensive evaluation of WIN-II, the public employment and supportive service program designed to assist welfare (AFDC) recipients attain economic self support. Since the implementation of the first WIN projects in 1969, WIN has served over 1.2 million welfare recipients, at a cost of over one billion dollars. The program adaptation referred to as WIN-II was fully operational from 1973 to 1975, and emphasized rapid job placements for employable welfare recipients. The objective of this study is to assess how successful WIN-II was in achieving its goals. In accordance with those goals, WIN-II has been with evaluated in terms of the extent to which it contributed to:

- an increase in the employment (weeks worked) of participants;
- an increase in the annual earnings of participants;
- a reduction in the duration of welfare dependency;
- a reduction in the amount (cost) of welfare dependency; and
- an increase in the income of participants.

## A. The Evaluation Effort

The basis for this evaluation consists of several data sources, namely: (1) a longitudinal series of three interviews with program participants at 78 WIN sites; (2) an identical series of interviews with a comparison group of non-participating WIN registrants; (3) official WIN record data on participants; (4) welfare office record data on both participants and the comparison group; (5) on-site assessments of program structure and performance; and (6) supplemental data collection. The first wave of interviews began in

March 1974, and included 3,084 participants and 3,471 individuals in the designated comparison group. The third wave of interviews was conducted during the period May-September 1975 and included 5,298 individuals or 81 percent of the interview sample. Record data was collected on all of the sampled participants, from both WIN and welfare office files, while on-site assessments of program structure and performance, at all 78 sites, were conducted.

The focus of our analysis is on the "net" impact of WIN; i.e., the extent to which the socioeconomic status of participants changed solely as a result of WIN participation and related service receipt. In gauging net impact we compare the observed status gains of WIN participants to those of a comparable group of welfare recipients who did not participate in the program; the difference in status gains is the basic measure of net gain attributible to WIN services. The entire analysis is carried out in a multivariate framework, of course, taking into account the influence of demographic characteristics and labor market conditions.

In addition to estimating the net impact of the WIN-II program, we have also attempted to identify the impact of different WIN services. The extent and kind of services received by any participant depends not only on his or her needs and potential, but also on the resources available at that particular site and the efficiency with which they are mobilized. Accordingly, it is reasonable to anticipate that the net impact of WIN will vary widely across individuals and local programs. By analyzing such variation we can

provide useful information for program design and administration, thus ultimately enhancing average net impact.

B. Major Findings

The details of our analysis as well as descriptive summaries of WIN structure and performance are contained in subsequent chapters. As a prelude to those discussions, we here provide a summary of our findings, organized around five major subjects, namely: WIN Program Structure; WIN Client Profiles; Average Net Impact; Impact of Specific Services; and Cost Effectiveness. We also provide a brief statement of general policy implications. For convenience, we have indicated page references to further discussions in the body of the report. Our major findings follow:

B.1 WIN Program Structure:

- As implemented at local sites, WIN-II was an extremely heterogeneous program. The evolution of WIN, through WIN-I (1968), WIN-II (1972), and the "WIN Redesign" (1975), together with varying speeds of local implementation of each stage, served to create a "program" with tremendous local diversity. A national WIN-II program has existed only in terms of the kinds of services potentially available at local sites and the kinds of welfare (AFDC) recipients likely to be served.

- The exposure of AFDC recipients to employment services was accelerated. Under WIN-II the Employment Service (ES) assumed an increasingly active role in the registration of WIN-II participants, thereby exposing clients to ES much earlier in their welfare experience. This trend, which anticipated the later WIN Redesign was intended to reduce the welfare inflow (the "deterrent effect").

- Direct placement activities were given increased emphasis at nearly all WIN sites. Despite the substantial variation across local sites in structure, staffing, and service provision, certain trends were apparent. Most important was the increasing focus on direct placement, as reflected in reduced availability of nonplacement services and a greater tendency to service the most employable applicants.

- The provision of supportive services declined. WIN's increasing focus on job-ready applicants reduced the need for supportive services. At the same time, local sites demonstrated an increasing reluctance to provide supportive services (especially child care) for participants in orientation, job search, education, or training components.

- WIN has become increasingly dependent on CETA for training, OJT, and PSE resources. Cutbacks in WIN resources led WIN projects to depend heavily on CETA for training and PSE services. By Spring 1975, CETA was providing between one-third and one-half of the institutional training available to WIN participants and similarly high proportions of OJT and PSE.

B.2 WIN Client Profiles:

- WIN-II registrants had less welfare experience and more employment experience than the typical adult AFDC recipient. A combination of mandatory exemption criteria and an increasing tendency to focus registration efforts on new AFDC applicants served to distinguish WIN registrants from the larger welfare population: nearly 40 percent of WIN-II registrants had welfare case openings and employment experience in the most recent six pre-WIN months. By contrast, less than 18 percent of all AFDC recipients had been on welfare less than six months, and only 30 percent have recent work experience.

- WIN-II participants tended to be more employable than registrants. In conformity with program guidelines, WIN-II gave priority to the most job-ready registrants. Over 50 percent of the WIN-II participants had been on welfare less than six months (vs. 40 percent for all registrants), and were more likely to be male (30 vs. 24 percent) and high school graduates (45 vs. 36 percent).

- Approximately one out of three WIN-II participants were reported as later employed, and one out of nine were observed to have left welfare. Of the roughly half million participants annually enrolled in WIN, 175,000 (34%) found jobs in each of fiscal years 1974 and 1975. Approximately two thirds of these jobs lasted ninety days or longer (Completed Job Entry). Only 52,000 WIN participants were reported as having left welfare.

- An increasing percentage of total WIN employment has been in OJT or PSE. The percentage of OJT slots in total WIN employment grew from 18% in FY 73 to 22% in FY 75, while the percentage of PSE slots grew from 3% to 8%. These trends reflect the component emphasis mandated by the Talmadge Amendments.

B.3 Average Net Impact of WIN:

- The average net annual earnings gain experienced by male participants was in the range $330-$445 and by females in the range $327-$471. That is to say, the earnings gains experienced by WIN participants in the first year after participation were larger than the gains experienced by comparable, but nonparticipating WIN registrants.

- The average net gain in annual employment was 2-3 weeks for males, 3-4 weeks for females.

- Virtually no net reduction in welfare dependency occured, on average. No net reduction in the average time on welfare was observed, for male or female participants. Only small reductions ($164 per year for males, $106 for females) in the average welfare grant occurred. This means that WIN participants were no more likely, on average, to leave welfare than non-participating registrants with similar characteristics.

- The net income gain to WIN-II participants averaged $561 per year for females, $290 for males. Analysis of a subgroup of all WIN-II participants, on whom complete income data was available, indicates that welfare regulations permit female participants to retain most of their earnings gains, without offsetting grant reductions. For males, the implicit "welfare tax" is over 40 percent.

- WIN-II had much more success, on a net basis, with participants who were less job-ready. The average net impact of WIN-II reflects the experiences of two very different kinds of clients. Participants

who entered WIN with little or no recent employment experience achieved very substantial first-year net earnings gains ($604 for males, $676 for females), while participants with recent work experience attained little ($190 for males, $41 for females).

- <u>The average net benefit to black WIN participants is far below the average net benefit to whites</u>. The average net earnings gains for black males was zero or negative, while for white males it was $580. Similarly, the average net earnings gain in the first year for black females was $255, compared to $634 for white females.

- <u>The 1973-75 recession constrained WIN's performance</u>. Comparisons of participant experiences in areas where the unemployment rate increased substantially to those in less adverse labor markets suggest that the average net impact of WIN-II was significantly constrained by deteriorating labor market conditions. Thus, our impact estimates do not fully express WIN's potential in an improved labor-market setting.

B.4 The Impact of Specific Services:

- <u>The level of employment services provided to individual participants varied tremendously</u>. Seven percent of WIN "participants" received no employment services, while others received widely varying levels of education, vocational training, placement, or OJT/PSE.

- <u>The net impact of specific services varied greatly, with higher levels of service yielding the greatest net impact</u>. Nonserved ("unassigned") participants actually experienced net status losses, when compared with similar WIN registrants. Placement services yielded a net first-year gain of $231-$361 for females and no net gains for males. By contrast, institutional training generated a net gain of $469-$622 for females and up to $722 for males, while subsidized employment (OJT and PSE) generated net first-year gains of approximately $1,500 for females and $1,900 for males.*

* First-year earnings gains attributible to OJT and PSE are publicly subsidized.

- Net earnings gains to black participants were smaller at every WIN service level. Black males actually manifest no net earnings gains from WIN services other than OJT/PSE; and even at that level of service the net first-year earnings gains to black males is only one-third that attained by white males. Racial differences are not so large for females.

- Prior work experience appears to have been the key determinant of net benefit, with the least experienced receiving the greatest net benefits. Lower-level WIN services (e.g., placement) yielded no net earnings gains to males or females with recent employment experience, but some gain to those without recent experience. Less experienced participants gained substantially ($840 for females, $1,346 for males) from institutional training, while more experienced participants gained little. The net earnings gains from OJT/PSE were likewise much larger for less experienced participants.

- The WIN tax credit was not effective in stimulating employment. Little use was made of the tax credit, due to a high percentage of self-placements its restrictive provisions, and a reluctance to identify welfare recipients in employment settings.

B.5 Cost Effectiveness:

- The economic benefits of WIN-II exceeded its costs. The present value of net earnings gains to both males and females were greater than their associated employment and supportive-service costs. In this sense WIN-II was economically cost effective.

- The welfare savings attributible to WIN-II were smaller than direct program costs. Work incentive provisions built into the AFDC grant structure preclude welfare savings equal to earnings gains. As a consequence, average welfare savings ($400 for males, $259 for females) were considerably less than average program costs ($760 for males, $1,104 for females).

- Institutional Training and OJT/PSE were more cost effective than placement services. Although training and subsidized employment activities were much more expensive than placement activity, they yielded still higher levels of benefit. Institutional training yielded the highest ratios of net earnings gain to cost.

- All WIN-II services attained greater cost effectiveness in serving the less job-ready. The higher costs of serving participants with no recent work experience are more than compensated by resultant net earnings gains, while services rendered to more experienced participants rarely yield comparable net gains.

C. General Policy Implications

A salient impression yielded by our evaluation is that WIN-II was a very heterogeneous program and that estimates of average net impact are of relatively little use. At best, they simply indicate that the national WIN-II effort did in fact assist welfare participants achieve a slightly higher level of self-support, and did so on an economically cost effective basis. Much more interesting than WIN's average net impact is the observed variation in impact associated with specific WIN services and client profiles, for such variation provides general guidelines for program and policy planning. On the basis of this variation, the following conclusions seem warranted:

- The participation priority accorded to job-ready applicants was ill-advised and should be abandoned. AFDC recipients with good work experience receive little or no net benefit from WIN, as they are just as likely to find employment and leave welfare on their own. On the other hand, those recipients with little work experience benefit substantially from WIN services.

- The "revolving door" concept of program service has yielded little benefit and should be sacrificed to greater service provision. The emphasis on direct placement of job-ready clients has absorbed much of WIN's attention, yet yielded no demonstrable net benefit. On the other hand, training and OJT/PSE services yield net status improvements that exceed their costs. Accordingly, the revolving door concept can be justified only if a substantial "deterrent effect" can be documented. This has not been done, and available evidence suggests that the deterrent effect may be insignificant.

- Gross placement rates, CJE rates, and welfare reduction rates are misleading indices of WIN impact and should be de-emphasized. Gross-flow indices of performance are not correlated with net impact. This discrepancy is explained by the fact that job-ready clients readily boost placement rates but do not achieve net status improvements.

- WIN-II's emphasis on OJT/PSE should continue. The observed net benefit to participants enrolled in OJT/PSE far exceeds that yielded by any other WIN component and appears to be cost effective. While these observed benefits include public subsidies, there is no evidence yet that net benefits will fall precipitously after OJT/PSE subsidies end. Until more evidence is available on this critical question, continued OJT/PSE emphasis seems warranted.

- An inquiry into why black participants benefit less from WIN services should be undertaken. Under WIN-II black participants received less benefit at all service levels. Whether this discrepancy is attributible to labor market discrimination alone or to program resource allocations is not known.

- Further efforts should be undertaken to assemble longitudinal evaluation data bases. A major constraint on the present evaluation effort is the lack of follow-up data on WIN participants who were enrolled in OJT/PSE; this constraint should be eliminated with an additional wave of interviews. Beyond this, possibilities for continuing longitudinal data bases should be explored further.

KETRON, INC.

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January 21, 1977

Mr. Fred Kalhammer
925 L Street
Suite 750
Sacramento, California 95814

Dear Mr. Kalhammer:

I have reviewed the final report on the Longitudinal Evaluation of WIN II and the underlying methodology of the evaluation. This has been done pursuant to your question of whether or not the general findings are applicable to California. In a single word the answer is probably. However, this is based only on conjecture and not on any separate evaluation of the data from California.

California accounted for the following proportions of the entire evaluation. It can be seen from this table that California, as a single state, accounted for a large part of the study. This alone would suggest that the evaluation findings are applicable. In addition, neither KETRON nor Camil found anything substantially different in WIN program operation in California from the rest of the country that would change this opinion. Therefore, I feel that the results, with possibly only minor perturbations, would hold for California.

| | Sites | Final Interview Participants (Original Classification) | Final Interview Comparison Group (Original Classification) |
|---|---|---|---|
| California | 12 | 408 | 460 |
| Total | 78 | 2478 | 2820 |
| Percent of Total | 15.4% | 16.5% | 16.3% |

I hope that my comments are helpful to you. If I can be of any further help, please let me know.

Sincerely,

Michael Temple

Michael G. Temple
Manager, Social Policy
Analysis Division

MGT/g



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